

Report
of the
Examination of
American Sterling Insurance Company
Merrill, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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April 8, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMERICAN STERLING INSURANCE COMPANY
Merrill, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Sterling Insurance Company (American Sterling or the company) was conducted in 2008 as of December 31, 2007, by the California Department of Insurance. American Sterling was declared insolvent and ordered into liquidation by the California liquidation court on October 26, 2011, and the liquidation was closed on October 17, 2017. Church Mutual Insurance Company (Church Mutual) purchased all outstanding shares of American Sterling's common stock on September 14, 2018. On January 10, 2019, American Sterling was issued the domestic certificate of authority in Wisconsin on January 10, 2019. As of the date of this examination report, American Sterling is in the process of obtaining recognition by the State of California of its redomestication to Wisconsin.

The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of an affiliated company domiciled in Pennsylvania, with Wisconsin acting in the capacity as the lead

state for the coordinated examination. Representatives of Pennsylvania participated in the examination, and their work was reviewed and relied on where deemed appropriate.

The company was examined as part of the current coordinated examination of the Church Mutual Group. The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks. All applicable accounts and transactions of the company were considered in accordance with the risk-focused examination process. The company did not issue financial statements as of December 31, 2017, due to its inactive status, and therefore, this examination report does not include financial statements.

II. HISTORY AND PLAN OF OPERATION

American Sterling Insurance Company was incorporated in California under the name Universal Security Insurance Company on September 4, 1979, and commenced business on December 31, 1980, as a direct, wholly owned subsidiary of S&H Insurance Company.

Effective January 1, 1985, virtually all of the company's assets and liabilities, excluding federal income tax items, were assumed by a newly formed company, Universal Security Insurance Company of California. The company then changed its name to Camino Insurance Company and remained owned by S&H Insurance Company. S&H Insurance Company was placed into liquidation on January 28, 1985. Under the control of the California Department of Insurance, all remaining assets and known liabilities of the company were liquidated along with those of its parent insurer. On December 29, 1986, American Sterling Corporation purchased 100% of the outstanding stock of the company from the California Commissioner of Insurance, as Conservator and Liquidator for S&H Insurance Company under a stock purchase agreement.

Under the ownership of American Sterling Corporation, American Sterling Insurance Company wrote low-limit automobile policies and professional liability coverage to mortgage lenders. The company was placed into liquidation on October 26, 2011, by the California liquidation court and the liquidation estate was administered by the California Liquidation Office (CLO) from the date of the liquidation order until the liquidation estate was ordered closed on October 17, 2017. At the estate's closure, the company and its remaining assets were released by the CLO to American Sterling Corporation, the company's sole shareholder. All policies issued by American Sterling were terminated effective November 25, 2011.

On June 26, 2018, Church Mutual filed a Form A statement with the State of California indicating its intent to purchase 100% of the outstanding stock of American Sterling. The transaction was approved by the California Department of Insurance on September 14, 2018. Church Mutual submitted an application to redomesticate American Sterling to the Wisconsin Office of the Commissioner of Insurance (OCI) pursuant to s. 611.223, Wis. Stat. and s. Ins 6.03,

Wis. Adm. Code. OCI approved the application and issued the domestic certificate of authority on January 10, 2019.

The company has certificates of authority in 16 states, including Arizona, California, Florida, Indiana, Kansas, Kentucky, Missouri, Nebraska, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Washington, and Wisconsin. The status of the certificates of authority, apart from those in California and Wisconsin, are unclear with many of the certificate of authority having been surrendered, revoked or placed in inactive status. American Sterling is not writing any business at this time and will not do so until the redomestication process is complete.

As of the date of this examination report, American Sterling is in the process of obtaining recognition by the State of California of its redomestication to Wisconsin. It is expected that this process will be completed in 2019.

III. MANAGEMENT AND CONTROL

Board of Directors

As a corporate shell that was an asset in a bankruptcy proceeding, the company had no officers or directors until it was acquired in September 2018. Immediately following the acquisition Church Mutual, as the sole shareholder of American Sterling, consented to form a board of directors with the following members until their next annual meeting.

| Name and Residence | Principal Occupation |
|---|---|
| Richard V. Poirier Wausau, Wisconsin | President and Chief Executive Officer Church Mutual Insurance Company |
| Kevin D. Root Merrill, Wisconsin | Executive Vice President – Operations Church Mutual Insurance Company |
| Jeffrey D. Steffen Wausau, Wisconsin | Vice President – Chief Financial Officer Church Mutual Insurance Company |
| Robert M. Buckley Weston, Wisconsin | Vice President – Corporate Research & Chief Strategy Officer Church Mutual Insurance Company |
| Steven C. Rominske Wausau, Wisconsin | Senior Vice President – Chief Actuary & Chief Risk Officer Church Mutual Insurance Company |

Officers of the Company

The following individuals were immediately appointed as American Sterling's first officers by unanimous written consent of the American Sterling Board of Directors.

| Name | Office |
|--------------------|---|
| Richard V. Poirier | Chief Executive Officer, President |
| Kevin D. Root | Executive Vice President – Operations |
| Robert M. Buckley | Vice President – Research & Chief Strategy Officer |
| Michael M. Smith | Vice President, Secretary & General Counsel |
| Jeffrey D. Steffen | Chief Financial Officer |
| Steven C. Rominske | Senior Vice President – Chief Actuary & Chief Risk Officer |
| Scott M. Names | Vice President – Chief Information Officer & Integration Officer |
| Angela K. Bailey | Vice President – Human Resources |

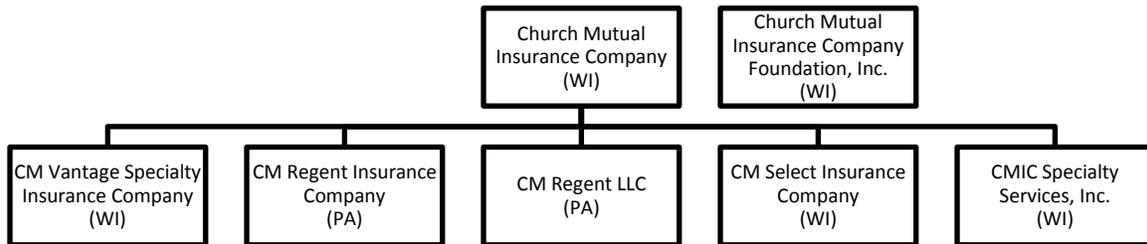
The company is licensed only in California and Wisconsin at this time and is not currently writing business.

IV. AFFILIATED COMPANIES

American Sterling Insurance Company is a member of a holding company system.

The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. Note that the company was added after the examination period as a subsidiary of Church Mutual Insurance Company.

Organizational Chart As of December 31, 2017*



*Church Mutual acquired 100% of American Sterling in September 2018.

Church Mutual Insurance Company

Church Mutual Insurance Company provides property and casualty insurance coverage for churches and religious institutions. It was formed in 1897 to cover specific denominations in Wisconsin but has since expanded to cover all religions and denominations throughout the United States. Since the previous examination, Church Mutual formed two and acquired two insurance subsidiaries. As of December 31, 2017, the audited statutory financial statements of Church Mutual reported assets of \$1,739,843,576, liabilities of \$1,036,154,022, and capital and surplus of \$703,689,554. Operations for 2017 produced a net income of \$28,536,835.

CM Regent Insurance Company

CM Regent Insurance Company (CM Regent) is a wholly owned stock insurance subsidiary of Church Mutual. Church Mutual acquired CM Regent (previously known as School Boards Insurance Company of Pennsylvania) on June 1, 2016, from the Pennsylvania School Boards Association Insurance Trust, a business trust organized under the laws of the State of Pennsylvania. CM Regent provides a variety of insurance products to association member school boards, including workers' compensation, property and casualty, and general liability

coverage. CM Regent is domiciled in Pennsylvania. As of December 31, 2017, the audited statutory financial statements of CM Regent Insurance Company reported assets of \$190,935,000, liabilities of \$109,522,000, and capital and surplus of \$81,413,000. Operations for 2017 produced a net income of \$13,427,000.

CM Regent, LLC

CM Regent, LLC provides various claims and administrative related services to the group. As of December 31, 2017, the audited financial statements of CM Regent, LLC reported assets of \$25,737,000, liabilities of \$11,883,000, and member's equity of \$13,854,000. Operations for 2017 produced a net income of \$239,000. The company was acquired in 2016 and was previously known as School Claims Services, LLC.

CM Vantage Specialty Insurance Company

CM Vantage Specialty Insurance Company (CM Vantage) is a wholly owned stock insurance subsidiary of Church Mutual. It was incorporated on November 12, 2015, under the laws of the State of Wisconsin. CM Vantage commenced operations in 2016 providing property and liability lines of insurance in the surplus lines market. As of December 31, 2017, the audited statutory financial statements of CM Vantage Specialty Insurance Company reported assets of \$61,692,000, liabilities of \$8,528,000, and capital and surplus of \$53,164,000. Operations for 2017 produced a net income of \$640,000.

CM Select Insurance Company

CM Select Insurance Company (CM Select) is a wholly owned stock insurance subsidiary of Church Mutual. It was incorporated on May 4, 2017, under the laws of the State of Wisconsin and began writing business in 2018. It provides business owners policy sold directly to customers. As of December 31, 2017, the audited statutory financial statements of CM Select reported assets of \$19,753,000, liabilities of \$(364,000), and capital and surplus of \$20,117,000. Operations for 2017 produced a net income of \$117,000.

CMIC Specialty Services, Inc.

CMIC Specialty Services, Inc., was organized as an insurance agency in 2006 for the purpose of obtaining and maintaining agency licenses in the states in which Church Mutual does

business, as well as placing business with other insurers on lines of business which Church Mutual was unwilling or not licensed to write, such as fidelity and surety bond insurance, liquor liability insurance, and group travel accident insurance. As of December 31, 2017, the financial statements of CMIC Specialty Services, Inc., reported assets of \$650,885, liabilities of \$607,751, and equity of \$43,313. Operations for 2017 produced net loss of \$141,459. The financial statements of CMIC Specialty Service, Inc., were not audited as of the end of the examination, and its value was reported as non-admitted assets on the Church Mutual financial statements.

Agreements with Affiliates

Services Agreement

The amended and restated services agreement between Church Mutual and all of its affiliates, originally dated August 16, 2016, and most recently amended September 17, 2018, covers general and administrative services to be provided by the companies to one another. It also establishes the cost-allocation methods and procedures for allocation of expenses related to those services.

Tax Sharing Agreement

The amended and restated tax sharing agreement between Church Mutual and its affiliates, originally dated June 1, 2016 and most recently amended November 2, 2018, was to ensure that the federal tax liability determined at the end of the taxable year of any individual member of the affiliated group shall not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within 30 days of the filing of the affiliated group's return and refunds paid within 30 days after requested receipt of a tax refund.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

- | | |
|-----------------|---|
| Type: | Reinsurance Agreement |
| Reinsurer: | Church Mutual Insurance Company |
| Scope: | Losses arising under policies in-force, issued or renewed by American Sterling |
| Retention: | None |
| Coverage: | 100% of the ultimate net loss under policies in force issued or renewed by American Sterling. Ultimate net loss is determined after making deductions for all recoveries, all salvages, and all claims upon other reinsurances which directly insure to the benefit of and collected by American Sterling. The contract contains a provision for deposit funds made by Church Mutual to provide American Sterling with a source of funds for payments of claims. |
| Rate/Premium: | 100% of the written premium collected, net of all insuring reinsurance purchased directly by American Sterling |
| Commissions: | Underwriting expenses incurred by companies in connection with the policies ceded under this agreement |
| Effective date: | September 14, 2018, until termination |
| Termination: | Cancellation may occur with 365-days' prior written notice by either company. Coverage will remain in effect for all policies this agreement was attached to. |

VI. FINANCIAL DATA

As the company has been in liquidation, the most recent financial statements available for the company were the quarterly statements for the quarter ended September 30, 2011, and submitted to the State of California. There is no financial data for the company available for the examination period.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report, which was published for the State of California for the exam period ending December 31, 2007. However, due to the liquidation process and the lack of activity on the part of the company, these are no longer applicable.

Summary of Current Examination Results

There were no findings for the current examination.

VIII. CONCLUSION

American Sterling Insurance Company is a California-domiciled company that was formed in 1979, entered into liquidation in 2011, emerged from liquidation in 2017, and purchased by Church Mutual Insurance Company on April 5, 2018. The company has written no business since 2011 and currently has no policies in force.

The company is currently going through the process of redomesticating from California to Wisconsin. The redomestication was approved by the State of Wisconsin on January 10, 2019. The redomestication has not yet been approved by the State of California, though no issues are anticipated. Due to the liquidation, the company has had no financial activity since 2011. It is not writing any business at this time and will not do so until the redomestication process is complete.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|---------------------|------------------------------|
| Shelly Bueno | Insurance Financial Examiner |
| Abdel Kondoh | Insurance Financial Examiner |
| Xiaozhou Ye | Insurance Financial Examiner |
| Ana Careaga | ACL Specialist |
| David Jensen, CFE | IT Specialist |
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Respectfully submitted,

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Examiner-in-Charge